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TO: Secretary of State

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Subject: Review US Aid Program in Guatemala in accordance with new International Development Objectives

Summary

The Government of Guatemala, with U. S. aid and technical assistance, has been carrying an extensive program of economic and social development. Much of the program initiated in Guatemala after the revolution of July 1954 has anticipated the objectives of President Kennedy's Alliance for Progress program and the Act of Bogotá. The remainder is being redirected in line with the new objectives.

Progress in economic and social improvement in Guatemala has been possible because of sympathetic government and the availability of U. S. funds to support cooperative efforts.

The obstacles to progress in Guatemala are not unusual or insurmountable. There is need for more Government revenue, a larger number of competent technicians, and greater capacity in Government institutions, including the Congress. There is, however, realization of these needs in the Government and an effort on a broad front to overcome basic shortcomings.

1. Host Government's Development Planning

A. Official Planning Organization

The report of the IBRD Mission to Guatemala in 1951 recommended the establishment of a National Economic Planning Council. It was established in November 1954, shortly after the Castillo Armas government came to power. Details on the memberships and organizational basis for operations are described in Embassy Despatch No. 636, dated May 5, 1961.

B. Operations to Date

The 1955-60 plan, prepared shortly after the establishment of the Council and [illegible]

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are now being reviewed by representatives from the Economic Commission for Latin America, who will prepare for the Council a projection through the '60's which will conform with President Kennedy's program for Latin America.

C. Comments on Plan

In view of the above-mentioned current revision of the entire official plan, no general comments will be offered beyond those already reported in Despatch 636.

When Castillo Armas came into power his first preoccupation was with problems in Guatemala which had been recognized and seized upon by the Communists to get into power. The U. S. Government, recognizing the basic soundness of the Castillo Armas approach, provided supporting funds. The attack on the basic problems of social and economic development was started before the establishment of the Planning Council. The Planning Council has since participated in these activities but has not yet achieved a position of strong leadership.

The Guatemala Program of economic and social improvement over the past five years has included the following principal activities:

(1) Road building for improved communications and to make accessible virgin or little used land;

(2) Land settlement;

(3) Supervised agricultural credit;

(4) Housing in urban areas;

(5) Expansion of educational facilities, particularly construction of primary schools in villages;

(6) Provision of potable water, both rural and urban, as a public health measure; and

(7) Sponsoring industrial development.

The Government needs to make greater use of centralized formal planning for the establishment of specific goals, of priority, and for allocation of financial resources.

The USOM has been approached informally on this subject and is formulating suggestions for strengthening the existing commission. One important proposal is to strengthen the technical planning within the ministries to promote greater interest and participation by Ministers in the planning process, and to ensure greater cooperation by the Ministers.

2. Self-Help in Relation to Development

Recommendation No. 5 of the first development plan prepared by the Planning Council recommended:

(a) The establishment of a permanent, technically qualified commission to study the existing federal and municipal tax system and preparation of a program which would modernize bases of levies, eliminate undesirable or unproductive taxes, and find new sources of taxation. Special attention was suggested to eliminate tax evasion and enforce collection measures.

(b) The early passage of an income tax law.

(c) Revision of existing tax exemption policies and practices.

The Government has submitted draft laws for an income tax and for an increase in real estate taxes which, thus far, the Congress has failed to enact into law. The Minister of Finance, desiring the soundest and best preparation, requested USOM assistance in a basic review of the tax structure.

Public Administration Reform

The 1955-60 plan recommended:

(a) Establishment of a civil service system

(b) Foreign training for government personnel

(c) Establishment of local education and training facilities in the field of public administration

(d) Establishment of a government procurement agency

The problem of honesty in government administration was handled by a tactful reference to the need for a civil service system which "would allow recognition of efficiency, honesty and cooperation." Progress has been slow, but the attitude of the Government is encouraging and the opportunity exists for rapid improvement. The major difficulty now is in securing the ICA advisors requested by the Government. In the meantime, however, cooperative Servicios have been able to put into practice and demonstrate honest and more efficient public administration. One of the Servicios was requested by the Government within the last year.

The first 5-year Economic Plan prepared by the Planning Council for the period 1955-60 covered the following general activities:

		(Millions)
(1)	Highway construction	Q 129.4
(2)	Land resettlement	15.0
(3)	Agricultural credit	20.0
(4)	Other support (extension, crop diversification, etc.)	7.0
(5)	School construction	3.5
(6)	Potable water and drainage	5.0
(7)	Public health centers	0.8
(8)	Hospitals	9.9
(9)	Low cost housing (ICA contribution, 50%)	4.2
	Sub-total	194.8
(10)	Other projects	
	Port facilities	2.2
	Airport improvement	1.2
	Telecommunications	6.7
	Electric power	27.8
	Social security	1.3
	Public buildings	16.7
	Grand Total	Q 250.7

Financing for the above-mentioned proposed program was to be as follows:

		(Millions)
(1)	Loan from IBRD	Q 21.3
(2)	From US Public Roads	21.4
(3)	From ICA	19.2
(4)	UNICEF	.3
	Sub-total	62.2

Plus internal support:		
(1) National budget		**117.2**
(2) Banco de Guatemala (internal loan)		**150.0**
(3) Municipality of Guatemala (bond issue?)		**14.0**
(4) Social Security institutions		**1.3**
(5) Banco de Guatemala (building fund)		**1.2**
	Sub-total	**148.7**
Anticipated special assistance from U. S.		**39.8**
	Grand Total	**Q 250.7**

The second development plan prepared by the Commission, to cover the period 1960-64 (balance of President Ydígoras' term), included the activities set forth below:

		(Millions)
(1) Agricultural Development		
a.	**Land resettlement**	**Q 11.3**
b.	**Irrigation**	**4.2**
c.	**Basic crop improvement**	**3.9**
d.	**Livestock and poultry development**	**1.5**
e.	**Slaughterhouse construction**	**2.3**
f.	**Research and extension**	**3.2**
g.	**Plant and animal disease control, reforestation and soil conservation**	**1.0**
h.	**Fisheries**	**.3**
i.	**Pacific Coast fishing port**	**1.3**
	Sub-total	**29.0**

(2)	Highway construction	67.1
(3)	Ports and airports	6.9
(4)	Telecommunications	2.0
(5)	Electric power	15.0
(6)	Public works	19.2
(7)	Public health and social welfare	12.3
(8)	Cartographic survey and mapping	3.0
(9)	Low-cost housing	7.0
(10)	Regional development of Peten	8.1
	Total	Q 170.5

Financing for the above was planned as follows:

		(Millions)
(1)	National budget	Q 85.9
(2)	Federal bond issue	36.0
(3)	Special assistance from U. S.	13.8
(4)	Foreign loans	30.5
(5)	Loans from local banks	0.5
(6)	Income from lumber produced in Peten by Government agency (FYDEP)	2.5
(7)	Contribution from municipalities	1.3
	Total	Q 170.5

3. Long Term Commitments

With the announcement of President Kennedy's plan for Latin American assistance and the authorization of Act of Bogotá funds, President Ydígoras requested and has approved a program of priority projects suggested by the USOM for the next 10 years as follows:

Sebol Land Settlement	Q 12,600,000
Coban-Sebol Access Road	1,000,000
Supervised Agricultural Credit	13,200,000
Housing	6,370,000
Slum Clearance Housing	500,000
Teachers' Housing	2,600,000
Guatemala-Salama Highway	10,200,000
Potable Water Supplies	4,320,000
Total	Q 50,790,000

The Government now proposes to encourage expansion of private initiative in housing under the provisions of newly enacted FHA law and to increase the housing loan to $10 million, in order to provide starting working capital. (See Housing Section for details.)

GOG domestic financing for the above projects will consist of:

(a)	Domestic borrowing (bond issue)	Q 4,100,000
(b)	Annual appropriations	16,320,000
	Total	Q 20,420,000

Toward financing the balance, GOG proposes (or has undertaken) to get foreign loans (other than from ICA), as follows:

Sebol Land Settlement	$ 8,800,000
Supervised Agricultural Credit	5,000,000
Aided Self-help housing	10,000,000
Guatemala-Salama highway	10,200,000
Total	$ 34,070,000

4. Development Grants

Because of the good relations with U. S. agencies and the basic desire on the part of the Government for economic and social progress, the cooperative development program is in a constant state of evolution and development. This comes about through close daily association between the Government of Guatemala and USOM officials, through recommendations made in response to Government requests, and through suggestions originating with Embassy or USOM officials.

Because of this situation and the fact that the basic concern of the program in Guatemala has been economic and social improvement, the planned revisions included in the review which follows do not represent many instances of radical change. There are included, however, plans for termination and phasing out of existing projects and redirection of others.

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Public Administration

The need for assisting in the establishment of more effective administrative machinery in the Government of Guatemala has been recognized by the United States since 1954. Between that time and 1958, the firm of Klein and Saks, under contract to the USOM, gave comprehensive attention to priority problems in economic planning, revenue administration, financial management, and overall governmental reorganization.

In 1957, an In-Service Training program for government employees was initiated, which, in 1959, was greatly expanded in scope, purpose, and operation into a Public Administration Development Center. Between the years 1957 and 1961 the Center, a joint project of the Government of Guatemala and the ICA, has trained over 3,500 government employees, at all levels, in a great variety of administrative fields.

In part, at least, the training and stimulative efforts of the Public Administration Development Center have accounted for a steadily increasing awareness in high Government of Guatemala circles of the importance of administrative reform as a basis for social and economic progress. This awareness has led, during the past nine months, to a series of requests for technical assistance in the broad field of public administration. In collaboration with the Government, the ICA has now worked out detailed plans for the provision of such assistance over the next three years.

Major improvements efforts, building and expanding upon earlier programs, will take the following form:

1. Strengthened tax and customs administration. Full-time technical advisors will be assigned to work directly with the Ministry of Finance.

2. The establishment of a Central Management Planning and Review office within the Government. Considerable ICA aid will go to this unit to help make it a strong force for economy and efficiency in government. A technician will be assigned full-time as advisor.

3. Improved statistical methods and reporting. A special Survey team will develop recommendations to strengthen this vital segment of economic planning.

4. The creation of a modern Civil Service System, based upon the principle of merit in employee selection, and embodied in a comprehensive Civil Service Law. To assist in this complex reform program, the ICA will provide two to three consulting specialists during the next year, together with a full-time technical advisor attached to the USOM staff.

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5. The establishment of a logical, equitable salary plan for government workers, based upon job evaluation. The conduct of the necessary survey and the developmental work leading to a government-wide Position Classification and Salary System, will be entrusted to a management consulting firm.

6. Training and promotional activities at the Public Administration Development Center will be continued, diversified, and strengthened. This program will remain the core of the total improvement effort, providing facilities, stimulation, and guide-lines for a variety of management projects. A full-time technical advisor will continue on assignment to the Center, and visiting professors and consultants will be brought in regularly by the ICA.

7. Finally, formal education -- or pre-service training -- for public service. This program will aim at the steady production of well-trained young technicians and administrators to serve the increasingly complex personnel needs of the Government of Guatemala. It is contemplated that an Institute of Administrative Sciences will be established in the Government of Guatemala to satisfy this vital need. An ICA-sponsored contract with a leading United States university to provide the required technical know-how is contemplated for the first two years of the Institute's existence.

Given the continued strong advocacy of change on the part of such key Government of Guatemala officials as the Minister of Finance, the steady and persistent demand for reform on the part of the great mass of government workers and leading private citizens, plus a fair share of ordinary good fortune, the next three years should see the public service in Guatemala achieve an unprecedented level of efficiency, honesty, and dedication. The impact of such achievement upon the major substantive programs of economic and social development -- where so often managerial ineptitude is the cause of failure -- cannot be overestimated.

Agriculture

The first cooperative development effort by the United States in Guatemala was in agriculture. It started with agricultural research, introduction and testing of better crop varieties and livestock breeds, investigation of insect and disease problems, and training of research technicians. Full responsibility for financing and management of this field of activity, as a mature project, was accepted by the Government in 1958.

The Agricultural Extension Service, together with a youth club program, was started in 1955. This activity, with United States

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financial and technical support, still is in a period of training and expansion.

A start toward overcoming the problem of dependence on coffee in a one-crop economy was made in a project for the development of rubber and complementary crops.

The Cooperative Agriculture Servicio was terminated in 1958, at which time the Government of Guatemala accepted full administrative direction of the cooperative agriculture program. Since that time, United States financial support has been continued for the Extension Service and complementary crop development in two joint funds.

The program for the future will include:

1. Crop diversification to assist in meeting the needs of a developing economy and to offset the foreign exchange handicap of dependence on coffee as the major agricultural export.

2. Greater emphasis on agriculture extension to gain more universal acceptance of better methods, and to support land settlement projects for the purpose of developing higher rural living standards.

3. Improved agricultural marketing with emphasis on more modern and more efficient methods and encouragement and assistance in the development of cooperatives.

4. Expansion of supervised agricultural credit with emphasis on assistance to operators of small farms, particularly those who do not have access to normal credit sources.

Land Settlement

The major portion of the work involved in the land settlement program projected in 1955, and for which funds were committed by the cooperating governments at that time, will be completed within the next year.

About 4,000 formerly landless farm laborers have received titles to their land. About 100 more new land owners will be established with the completion of the existing 19 projects.

Work is in progress on most of the remaining contracts to complete buildings for schools, health centers and administrative offices, as well as for electric lights and water and sewage systems for existing projects. Work on roads within [illegible] projects has been completed. Construction is under way or contracts let for most of the remaining work

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on access roads. Funds still available for the rural housing project which is a part of the land settlement project are expected to be spent within the next year. The same is true of the farm well program.

At the suggestion of the USOM, the Government is studying a plan for the division and sale of additional large government farm tracts for what the Government terms a "middle-class" farm program. United States technicians are assisting with this study. Increased credit facilities will be needed to implement this plan and the Government expects to submit to the Interamerican Bank a request for a loan to increase its agricultural credit program loan capital.

United States technicians are assisting the Government with planning work for a large-scale colonization project in a virgin area. The Government is providing funds in this year's budget to finance the planning work. More complete data will be needed before an application for a loan to finance development costs can be submitted.

A great need remains for providing better opportunities for underemployed rural population. In part, the solution lies in expansion of land settlement efforts, but much of the problem will require more rapid industrial expansion and city employment.

Education

The host government's priority program to provide education to the hitherto neglected sector of the population, particularly in small villages and rural areas, has necessarily been concentrated during the past five years on the improvement of primary school facilities. This included improvement of existing primary school resources plus an expansion of the basis physical plant -- school buildings themselves.

Only 86 public schools had been constructed in the period from 1898 to 1954. The Castillo Armas Government constructed 60 schools during the three years of its existence. The United States has entered into an agreement with the Government of Guatemala for construction of a projected 425 public schools. At the end of the first 15 months, 100 schools have been completed. This is a community self-help program with the United States, the Government of Guatemala, and local communities each providing one-third of the cost. This program is expected to be completed in about three years.

During the period since the July 1954 revolution, the USOM's supporting technical program followed traditional approaches in urban education, rural education, administrative services, and vocational education, with the cooperative educational servicio as the administrative agency.

With the progress now made in training, organization and development in the educational system, the USOM will terminate the urban and rural education projects. At the end of this year the USOM plans to undertake cooperative projects in improved school administration, improved school curriculum; and improved teacher preparation.

The literacy program, undertaken originally with the Ministry of Defense to teach illiterate draftees to read and write, has now expanded to civilian population on a volunteer basis. The teaching materials developed for the army program now are being used by more than 300 volunteers among adult illiterates.

A new vocational training center is being constructed by contributions by the United States, the Government of Guatemala, and the local business community. The new facilities are now nearing completion. In the meantime, training of skilled workers for the increased industrial enterprises is progressing in temporary quarters.

The USOM proposes next year to cooperate with the Ministry of Education in a task force study of organization and facilities needed to meet the educational problem in Guatemala.

Public Health

Cooperative public health activities with the Government of Guatemala started with assistance in constructing and equipping hospital facilities, followed by technical assistance in hospital administration and nurse training.

Hospital construction and equipment assistance was terminated in 1958. Technical assistance in hospital administration was terminated in 1959. One nurse training advisor remains in the United States staff.

Financial and technical assistance with the Government's water supply program was first made available in 1955. Water supply programs previously administered in three Government agencies have been consolidated under the direction of National Water Supply Committee. Water systems are provided on a community self-help basis with the ICA, the Government of Guatemala and the local community each providing, on the average, one-third of the cost. United States funds available for the water supply program will be expended this year. The Government plans to continue this activity with budgeted funds and loans.

The Malaria Eradication Program in Guatemala started in 1957, in

the Ministry of Health, with contributions by UNICEF and technical assistance of the Pan American Sanitary Bureau. In mid-1958, the Minister of Health requested that the cooperative Health and Sanitation Servicio accept responsibility for administration of this program.

One more year of complete and intensive spraying work will be required, after which the major effort will be surveillance. Of the 130,000 blood samples collected in 1960, in only two percent was there evidence of malaria.

The program for the future will include greater emphasis in health education and development of public health facilities, along with technical advisory services as required for sewage disposal projects and for continuation of the water supply program.

Public Safety

The Public Safety Program in Guatemala began in July 1956. It has been primarily concerned with police academy training, with specialized training abroad in the United States and Puerto Rico, and with recommendations on organization and operations. Equipment provided to support these efforts has included vehicles, communications equipment and laboratory equipment.

It was expected that it would be possible to phase out this program in FY 1963. However, because of increased political unrest in Latin America, based on Communist pressure and sympathy for Castroism, there has been an increase in the importance of internal security measures stressing riot control, better equipment, and improved operations and administration in the Government police and border patrol. More emphasis will be given in the future to developing career leadership in key administrative positions.

Housing

The Government's priority interest in low-cost housing has made possible rapid and substantial progress in this field. A high degree of cooperation and a willingness to employ new concepts has facilitated the development of housing from the initial stage of government-sponsored, self-help projects to the encouragement of private enterprise.

The Instituto Cooperativo Inter-Americano de la Vivienda established in 1956 began the construction of low cost houses for families in the $65 to $130 per month income group. The method started with a major part of construction labor being supplied after work hours by the prospective owners. Construction time was about 18 months. The present method is to use self-help labor in the manufacture of cement blocks and in pre-fabricating components, and to use paid labor for most of the actual construction. Construction time now is about five months and savings in overhead supervision are more than enough to pay for the hired labor.

By June 30, 1961 a total of 1,749 houses in seven different projects had been completed at an average cost of $2,682. Remaining to be completed with the original financial contribution is a total of 941 houses. Of this number, about 200 are in various stages of construction.

The cost of the projected total of 2,690 houses will be $7,214,000, of which GOG is contributing $3,350,000 and the U.S.

$3,864,000. In addition, the GOG has contributed land for most of the project areas. Proceeds from monthly payments on purchase contracts are to be used to further housing as the two governments mutually agree.

With technical advice from USOM, a plan, including assistance with draft legislation, for the establishment of a Federal Housing Agency (Instituto de Fomento de Hipotecas Aseguradas), was prepared. The legislation became law in June 1961. This law provides for insurance of mortgage loans issued by banks and approved lending institutions up to $15,000 each, for a premium of 1% per annum on the unpaid balance. The new mortgage insurance agency provides insurance for investments in residential mortgages.

The first extensive government-sponsored project to be undertaken through contract with private builders will utilize some of the proceeds of sales of self-help houses.

The Government proposes to apply for a loan from the Inter-american Development Bank to supply additional funds for government housing projects and loans to home loan institutions that will operate under the FHA law.

Industrial Development

The National Economic Planning Council's general approach to industrial development has been described in the section entitled "Private Investment." The attitude that government action in this field should be indirect took a change in 1959 when the Executive Director of the Planning Council became interested in a recommendation of the World Bank Study on Economic Development in Guatemala that had been passed over when the first five-year plan was prepared. This was recommendation No. 27: "Attach to the National Institute of Development Production, a small group of experienced foreign technologists for continuous industrial aid and research." As a result of this interest, the present Industrial Promotion and Productivity Center was formed as a cooperative USOM project with Ministry of Economy and the Bank of Guatemala, on June 29, 1960.

The objectives of the Center are expressed in broad terms to "stimulate industrial development." Activities by fields of action include stimulation of private investment, improvement of technical productivity of existing industry and improvement of management, supervisory, and labor skills.

The Center, then, as a decentralized agency under the broad policy direction of the Minister of Economy is the host government operating agency to promote industrial development. Prior to the establishment of the Industrial Promotion and Productivity Center, technical assistance was provided by U.S. technical advisors working directly with private business and industry groups.

In addition to its cooperation with the Center, the Industrial Development Project provides assistance with supporting studies and surveys requested by the GOG. For example: reorganization of Development Banks and the establishment of a Private Financing Corporation, a survey of productive private investment opportunities and econoric studies, including mineral resources surveys, and forest products utilization.

Another U.S. contribution to industrial development is to provide technical training abroad for host government officials with responsibilities related to industrial development. This training runs from officials at Ministerial level down to the working level in government agencies and top representatives of private business organizations.

The Center, through its working relationships, coordinates its program with the National Economic Planning Council, the Technical Advisory Committee in Industrial Development (government and private), the National Tourism Board, the Government Committee in Integration in Central American Common Market, and the Government Committee on pooling of technical development data by Central American agencies.

The existing program in Industrial Development is on a sound basis with an approach well coordinated with host government planning.

5. Development Loans

It is anticipated that financing for presently planned economic and social development projects will be provided through loans from the Interamerican Bank, domestic borrowing through a bond issue, and from annual appropriations.

Highway and communications projects, about to be undertaken, will be financed by already approved DLF and Export-Import Bank loans.

6. Development Research

Traditionally, ICA assistance has been provided on a country basis and our Congressional Presentations have been developed in this manner.

Throughout [illegible] written about regional economic [illegible] has proven disappointing [illegible] of the proponents of economic integration.

The emphasis which [illegible] is placing upon the [illegible] creation of a "common market" [illegible] is further evidence of the persistency of the [illegible] a stimulus to our own thinking [illegible] of morrums in Central America [illegible] unity leading to greater [illegible].

Clearly the Alianza para el Progreso, with its emphasis on a common policy for the [illegible] gives impetus to the notion of over-[illegible] cooperation and planning.

While it is appropriate [illegible] has leading roles to play in connection with the development of complementary economies in Latin America, we believe that AID, responsible for AID development programs [illegible] neglect the problems of regional economic [illegible] administration -- and that attention [illegible] to the manner in which DAG countries could be [illegible] to collaborate with the two nations of this hemisphere over the next decade. Specifically, there would see to be a need for [illegible] United Free World nations could pool their [illegible]. Assuming a scarcity of [illegible], it would appear incumbent upon [illegible] World Resources, [illegible] which would preclude [illegible] elements.

Specifically, [illegible] research, both in Guatemala and [illegible] in the field of industrial [illegible] and private enterprise [illegible] Central American Institute for Industrial Research (ICAITI) which was sponsored [illegible] initially staffed and financed by the UN. This [illegible] primarily financing from the Central American [illegible] fees for service to private enterprise [illegible] nationality difficulties at ICAITI have [illegible] coordination and liaison between it and [illegible] Central America. This situation [illegible], in the future, scope for a certain amount of [illegible] research within the framework of ICAITI.

In the agricultural field it is understood that private enterprise, assisted possibly by the Ford Foundation, is thinking of a research institution utilizing the now unused physical facilities of United Fruit Company at Tela, Honduras. Here again, if this project evolves, it may offer scope for AID development research in the framework.

In the field of electric power Guatemala is to be the recipient of a Special UN Fund-financed and IBRD-administered survey of hydroelectric power and irrigation facilities and prospects.

In the field of transport any development research would probably be of a regional nature.

In the field of health and medicine development research already exists. The Central American and Panamanian Nutrition Institute (INCAP), supported financially by the six governments concerned, the Kellogg Foundation, and others, is well known and highly appreciated. It might be that from time to time development research funds could be useful to this institution.

7. Food-for-Peace

Assuming that the daily standard of nutrition is generally accepted as 2,500 calories per person, Guatemala is a nutritionally deficient country, since average per capita daily food consumption is estimated to be 2,175 calories. This implies that there is an opportunity for imports of foods under the Food-for-Peace program to make up the deficit. However, Guatemala is self-sufficient in almost all foods with the exception of needed additional amounts of animal and vegetable proteins.

United States surplus agricultural products presently enter the country under Title III of PL 480 through programs of the Catholic Relief Service (CARITAS), UNICEF, and the Cooperative for American Relief Everywhere, Inc. (CARE). These consist primarily of powdered skim milk, corn meal, rice and edible fats and oils. The volume of imports under these three programs, however, is relatively small and does not correct to a significant degree the nutritional imbalance which is caused by total consumption of cereals well above recommended levels.

The voluntary agencies mentioned above anticipate about a fourfold increase in food distribution during FY 1962. However, it is believed that these distributions are not made with the purpose of correcting nutritional deficits in intake of animal protein, fats, and other protein. Reinforced wheat flour might be used to some

extent to correct a deficit in vegetable protein, but imports for this purpose would displace an equivalent value of locally-produced corn and create price and supply problems for local producers.

The country's present total cattle herd is estimated at 1,200,000 head. There is substantial potential for, and interest in, pasture development. Since the recent initiation of beef exports and the construction of two new slaughter and packing houses, it is expected that beef production will expand. It is reasonable to expect, as well, that availabilities of beef will be adequate to meet increases in domestic demand. Also, increasingly larger supplies of seafood at lower prices are helping to meet the protein deficit.

The local dairy industry is developing slowly but steadily, and increased local production of dairy products will make up a small part of the animal protein deficit. Local production of edible vegetable seeds and oils is increasing slowly, roughly in proportion to the increase in cottonseed production. The deficit in fats could be made up by local production of other oil seeds but this is a two to three-year proposition.

Taking into consideration the foregoing, the Mission feels that the opportunity for expanding the Food-for-Peace program in Guatemala exists in Title III distributions. However, the relatively small size of the consumer market and its sensitivity to small fluctuations in supply would require extreme care in the formulation of an expanded program. The Mission will continue to review other possibilities for expanding food imports while, at the same time, recognizing that some of the deficit described above will be met by normal commercial imports. For example: the average annual increase of 3 1/2 per cent in demand for wheat is being filled by commercial imports. The Agricultural Attaché is constantly exploring opportunities for market development.

Title IV sales are another possibility but only if the make-up and the attitude of the Guatemalan Congress changes. Previous efforts by United States and GOG officials to arrange for wheat imports under Title IV failed because of the refusal by the Congress to approve a loan in the form of such imports.

D. Private Investment

The first five-year plan, in discussing the need for industrialization, states:

"In an economic system, that is based on private initiative and free enterprise, as is the case in Guatemala, the development of industry in general is up to the individual private businessmen who, after all, must adapt themselves to existing legal practices, obligations to Society, and the current level of technology. The State for its part, only intervenes in this field to look out for the rights of the people as a whole, and to provide those services considered indispensable for the welfare and progress of the people as a whole, and which private enterprise cannot provide; and (within these guidelines) to provide encouragement including favorable investment climate to promote industrilization which in the long run benefits all."

Specific recommendations in this connection:

(a) Revision of the Law for Promotion of Industry

(b) Revision of tariffs to protect local industries not considered to be uneconomic

(c) Revision of existing credit facilities and practices to facilitate industrial development

(d) Maintain continued vigilance to avoid inflationary policies

(e) Government procurement should give first preference to Guatemalan products where basis for reasonable competition exists.

The Government has in general adhered to this philosophy and program. President Ydígoras has stressed many times in public statements within the past year the importance which he ascribed to industry in his plans for the economic development of the Republic. He referred to U. S. cooperation and emphasized the need for an "Industrial Revolution" in his annual message to the National Congress on April 1, 1961, in which he said:

"The Government of Guatemala has adopted as economic policy the balanced development of the country's economy, based upon full utilization of the national resources--human, physical, credit--with the aim of increasing the national income and benefitting the majority of Guatemalans.

"To assist in reaching these ends and to favor the 'Industrial Revolution,' a cooperative agreement was signed on June 29, 1960, creating the Industrial Promotion and Productivity Center. This most modern type of organization, designed to develop the wealth of a nation, has operated with

extraordinary success in 28 countries of the world, including Central America. The Center was inaugurated on October 12, 1960. Its fields of action are all those related to the economy and the development of a country.

"It is financed by contributions of the Government of Guatemala, the Bank of Guatemala, the International Cooperation Administration and private initiative."

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